IDEA2WIN – Anupam Rasayan India Limited

CMP: ₹710-735; 1-Year Target: ₹863

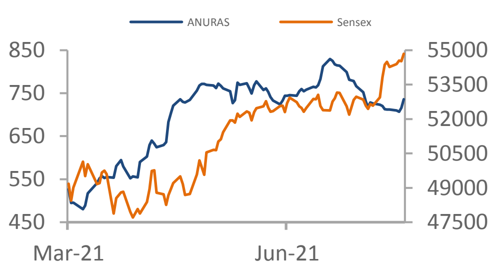
Sector	Chemicals
Recommendation	BUY
Upside	20%

Stock Data	
Sensex	54830
52 Week h/l (₹)	850/472
Market cap (` Cr)	7,154
BSE code	543275
NSE code	ANURAS
FV (₹)	10
Div. yield (%)	0.0

Shareholding Pattern	Mar-21	Jun-21
Promoters	65.40	65.40
FII+DII	7.49	8.44
Public	27.11	26.16

Source: www.bseindia.com

Share Price Trend



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Profile

Anupam Rasayan India (ARIL) is one of the leading companies engaged in the custom synthesis and manufacturing of specialty chemicals in India. The company's key focus area is custom synthesis & manufacturing (CSM) operations by developing in-house processes for manufacturing products requiring complex chemistries and achieving cost optimisation. ARIL has six multi-purpose manufacturing facilities in Gujarat, India, with four facilities located at Sachin and two located at Jhagadia. Together, these entail a total capacity of ~27,000MT.

Investment Rationale

Revenue growth driven by increased capacity utilization

Capacity utilisation of units 5/6 increased to 68%/72% in 1QFY22 (vs. 52%/59% in FY21). Management estimates capacity utilisation of these units to be 75% in FY22 and 90% in FY23, and this is expected to drive the majority of growth. Management stated that 75% of the YoY revenue growth was attributable to new products developed. Volume growth for the quarter was ~63% YoY, and the remainder of revenue growth was due to increased average realisations. Average realisation increased from ~Rs730/kg in 1QFY21 to Rs806/kg in 1QFY22. Management expects average realisation for FY22 to increase to ~Rs900/kg vs. Rs810/kg in FY21.

Strong product pipeline

ARIL is focussing on developing new chemistries and on value engineering, whereby it can replace low-value products with high-value ones. Management stated that the company has been working on 70 products in R&D and plans to launch ~10 new products in FY22. In 1QFY22, the company commercialised one new product. Regarding its new launches, management explained that these products have been discussed with customers for ~2 years. The company is also in discussions to launch a new product that is used in a new telecom technology. This product is brand new for India and Asia. Management stated that while the product is currently confidential, they will share further details in the next few quarters.

Increased Capex

ARIL incurred a capex of ~Rs100m in 1QFY22; planned capex for FY22 includes:

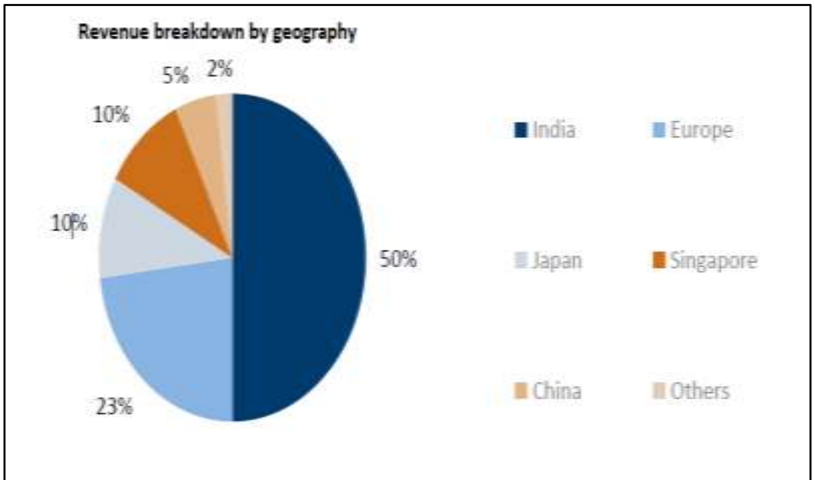
- Capex for setting up the solar power plant
- Rs600-700m to execute the two long-term projects announced last quarter.

Management is also evaluating 5-6 projects that will need modular capex of Rs500-600m per project, if taken up. Almost 70-80% of these projects are with existing customers and management stated that they intend to take up 2-4 of these projects. Announcements will be made when plans are finalised. Going forward, management plans to execute 2-3 new projects every year and commercialise 5-7 new products.

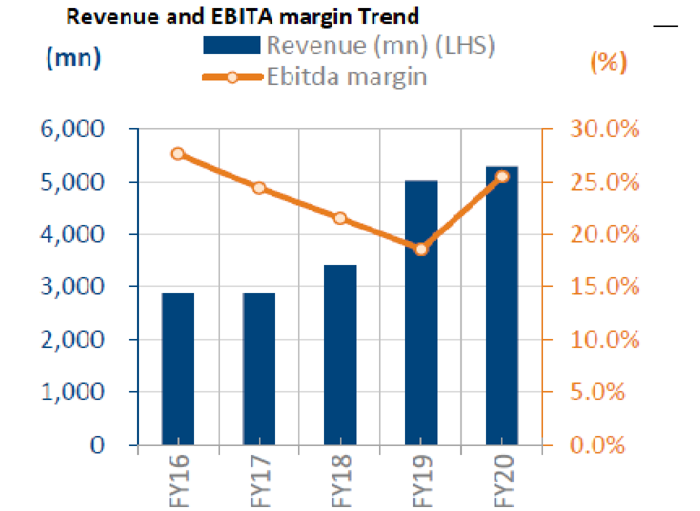
Technical and R&D capabilities

ARIL has a dedicated R&D facility with a team of ~55 people (headed by Dr. Nileshkumar Naik). Additionally, the company has a dedicated pilot facility at Unit-6. The R&D team is instrumental to the growth of the business, and management believes the function is critical for maintaining a competitive edge. Over the years, Anupam has enhanced its chemistry capabilities and is one of the few companies in India that can perform a wide range of chemistries under one roof.

Strong financial performance: The total income from operations increased by 73% YoY, rising from ₹1,354mn in 1QFY21 to ₹2,337mn in 1QFY22 while the EBITDA has increased from ₹330mn to 607mn during the same period, rising 84% YoY. There has been a huge increase in the profits as covid restrictions eased. The net profit of the company rose from ₹2mn in 1QFY21 to ₹321mn in 1QFY22. The finance cost of the company has fallen by ~65% YoY to ₹66mn.



Source: Company, IIFL Research



Risks

Covid-19 third wave: If there is a third wave of pandemic in India, the company would see slowdown in production, which will affect the normal course of business. This would also have an impact on the new product pipeline and slower capex.

Outlook & Valuation:

The outlook remains strong as the company expects to commercialise 10 new molecules in FY22 and is in discussions to select 2-4 modular capex projects of ₹500-600m each (with asset turns >1.75x). Given the lower finance cost due to reduction in debt post the IPO, higher capacity utilisation, sharp increase in EBITDA and profits, increased capex and strong management guidance, we continue to forecast a robust FY21-24ii EPS Cagr of 56%, which justifies valuations that currently stand at 30x/22x FY23/24ii P/E. We expect the stock to give a target of ₹863.

Financial Summary

Consolidated (INR in mn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Total Income	5,289	8,109	10,866	14,560	18,928
YoY growth (%)	5.5	53.3	34.0	34.0	30
EBITDA margin (%)	25.5	23.9	25.0	25.5	26.0
Pre-exceptional PAT	532	703	1,577	2,377	3,271
PAT growth (%)		32.1	124.3	50.7	37.6
ROE (%)	9.7	6.5	9.6	12.9	15.4
P/B (x)	9.1	3.7	4.1	3.6	3.1
EV/EBITDA (x)	46.1	30.5	26.3	19.1	14.2
Net Debt/Equity (x)	1.3	0.1	0.0	0.0	(0.1)

Click here to watch the video.

DISCLAIMER

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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